PRESS RELEASE

DECEMBER 13, 2024

Morningstar DBRS Upgrades the City of Madrid to A (high), Changes Trend to Stable

SUB-SOVEREIGN GOVERNMENTS

DBRS Ratings GmbH (Morningstar DBRS) upgraded the Long-Term Issuer Rating of the City of Madrid's (Madrid) to A (high) from "A" and changed the trend to Stable from Positive. At the same time, Morningstar DBRS confirmed Madrid's Short-term Issuer Rating at R-1 (low) with Stable trend.

KEY CREDIT RATING CONSIDERATIONS

The upgrade of the Long-Term Rating is underpinned by the upgrade of the Kingdom of Spain's Long-Term Foreign and Local Currency - Issuer Ratings to A (high) from "A" on 29 November 2024. The upgrade also reflects Madrid's strong financial management and very favourable fiscal track record.

Madrid's credit ratings are underpinned by (1) its large and diversified economy as Spain's capital city; (2) its strong financial performance over the past decade and sound medium-term fiscal outlook; and (3) its debt metrics, which are at relatively low levels, and effective public-sector debt management. Madrid's credit ratings also benefit from Morningstar DBRS' assessment of a high likelihood of support from the Kingdom of Spain (A (high), Stable). Morningstar DBRS takes the view that, despite Madrid's intrinsic strengths, it does not qualify to be rated higher than the sovereign because its current revenue framework is not constitutionally protected. Madrid's credit ratings are capped by the Kingdom of Spain's credit ratings.

CREDIT RATING DRIVERS

The credit ratings could be upgraded if the Kingdom of Spain's credit ratings are upgraded.

The credit ratings could be downgraded if any or a combination of the following occur: (1) the Kingdom of Spain's credit ratings are downgraded; and (2) although currently unlikely given its intrinsic strengths, a structural weakening in the city's fiscal performance, leading fiscal deficits to widen over time and to a sustained and material rise in public-sector debt.

CREDIT RATING RATIONALE

City of Madrid's Fiscal Performance Remains Strong, and Could Improve Further with New Revenue Stream

Madrid's financial performance improved significantly in 2023 with a financing surplus accounting for 6.1% of operating revenues following a deficit of 4.7% in 2022. This fiscal improvement stemmed from an improvement in operating performance and a decrease in capital expenditure (capex). The increase in operating surplus was supported by higher tax revenues and fees from municipal services. In terms of capital investments, the municipality decreased its capex because of slowing budget execution from the lower investment activity during the municipal elections.

Regarding the fiscal targets for Spanish local governments, although they were not binding in 2023, Madrid complied with the surplus reference of 0.1% of GDP and with the debt limit, which is substantially below the threshold set by the government (75% of operating revenues). Madrid's budgetary improvement is expected to continue in 2024 and 2025. The Independent Authority for Fiscal Responsibility's (AIREF) report on budgetary execution, public debt and expenditure rule (July 2024) continues to expect the city to post a surplus of 0.1% of GDP in 2024, thanks to the extraordinary revenues from the municipal financing system.

In addition, in 2025, Spanish municipalities will be required to implement a new fee related to municipal waste generation. The fee should provide for EUR 296 million new gross revenues for Madrid while the current fee to be cancelled amounted to EUR 41 million.

We view the city's fiscal outlook as sound for 2024 and 2025 but expect the municipality to continue its fiscal policy of reducing rates on its own taxes progressively. Madrid benefits from fiscal headroom and fiscal flexibility, which would allow the city to increase its tax receipts by more than EUR 500 million, or 9% of operating revenues, by raising local tax rates if needed. Most of the financial improvement in 2024 stemmed from extraordinary transfers from the central government whilst the improvement in 2025 is reflecting the revenues increase from the municipal waste fee that should structurally support the fiscal performance of the city.

New Bond Issuance Confirms the Outstanding Debt Profile of the City and Helps Maintain the Strong Liquidity

As of end-2024, the municipality's debt stock is expected to remain below EUR 2.0 billion for the fourth consecutive year. Up to September 2024, the city's debt has slightly decreased to EUR 1.9 billion from EUR 2.0 billion at end-2023. The municipality plans to progressively reduce its debt to EUR 1.7 billion in 2027 and for the debt ratio to remain far below the 75% limit set in the national government's budget stability law; surpassing this limit would prompt a need for pre-approval from the Ministry of Finance for any debt operation. Additionally, due to a substantial increase in operating revenues, the debt ratio slightly decreased to 40% of operating revenues from 41% in 2022 and is expected to keep decreasing towards 35% of the operating revenues at end-2024. At the same time, AIREF's report estimates that the debt-to-GDP ratio will slightly decrease to 1.5% of GDP in 2024, down from 1.6% GDP in 2023.

The city issued a 10-year bond of EUR 128 million to fully cover all the funding needs for this year, while they just had one bond on their debt portfolio that was issued back in 2006. The city's debt structure is sound, relatively long average life of debt and debt falling due in 2024 representing less than 7% of its debt stock at the end of 2023. Despite the low risk of contingent liabilities, the city will take full ownership of the principal highway (M30) in 2025, which shareholding is currently shared with a private company acting as the operator.

The city benefits from a strong liquidity position. Cash amounted to EUR 676 million at end of October 2024; with debt repayments for the next four years fully covered and access to credit line facilities available for EUR 450 million. Additionally, Madrid could call for the national government to backstop financing support under financial distress, although this is currently unlikely; hence, Morningstar DBRS is confident that the city can meet its financing requirements.

High Employment and Wealth Support City's Economic Growth

Madrid is the capital of and the most populated city in Spain, with a population of approximately 3.5 million and a GDP estimated at around EUR 181 billion at the end of 2023. The city is located in the Autonomous Community of Madrid (A (high), Stable) which benefits from the largest regional economy in Spain, representing close to 20% of Spain's GDP. Morningstar DBRS expects the municipal economy to continue growing broadly in line with the regional economy. For 2022, Madrid's real GDP grew by 7.2%, better than Spain's growth rate of 5.8%, and AIREF expects Madrid's real GDP to have grown by 3.0% in 2023 and to grow by 3.1% in 2024. Morningstar DBRS expects the regional economy to continue growing thanks to its high employment level and strong tourism performance.

Tourist arrivals at hotels (domestic and foreign) grew by approximately 9% year over year as of October 2024, and cumulative arrivals during 2023 were already 0.2% above 2019 levels. The post-pandemic recovery in tourism has been stronger nationally than in Madrid. However, during 2024, the employment level has continued to grow with some fluctuations around 3.7 million workers, with 87% working at the services sector, after strong annual growth of 3.1% up to November 2024. The level of employment has remained elevated during the last two years and can explain why the region benefits from the highest GDP per capita in the country, estimated at EUR 38,435 in 2022, or 36% above the national average. At the same time, the unemployment rate stood at 9.6% at Q3 2024, down from 10.2% at Q3 2023.

The financial resources expected from NGEU, including the RRF and REACT-EU funds, should continue to support reforms and investments. The city estimates that total revenues to be received from these EU funds would amount to around EUR 501 million, and, as of September 2024, EUR 402 million had been spent since 2020.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS
ESG Considerations had a relevant effect on the credit analysis.

Social (S) Factors

The following Social factor had a relevant effect on the credit analysis: Passed-through Social considerations.

The Passed-through Social credit considerations have a relevant effect on the credit ratings, as the social factors affecting the Kingdom of Spain's credit ratings are passed-through to City of Madrid.

There were no Environmental or Governance factors that had a significant or relevant effect on the credit analysis.

Credit rating actions on Kingdom of Spain are likely to have an impact on this credit rating. ESG factors that have a significant or relevant effect on the credit analysis of City of Madrid are discussed separately at https://dbrs.morningstar.com/issuers/15664.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August, 2024) https://dbrs.morningstar.com/research/437781.

RATING COMMITTEE SUMMARY
Morningstar DBRS' European Sub-Sovereign Scorecard generates a result in the AA (high) - AA (low) range. The main points discussed during the Rating Committee included the fiscal and financial impacts of the upgrade of Kingdom of Spain's rating, the fiscal and debt evolution in 2024, the economic situation in the city and its outlook, and its financial forecasts.

For more information on the Key Indicators used for the Kingdom of Spain, please see the Sovereign Scorecard Indicators and Building Block Assessments https://dbrs.morningstar.com/research/444000.

The national scorecard indicators were used for the sovereign rating. The Kingdom of Spain rating was an input to the credit analysis of the City of Madrid.

Notes:
All figures are in euros unless otherwise noted.

The principal methodology is the Rating European Sub-Sovereign Governments (09 August, 2024) https://dbrs.morningstar.com/research/437618. In addition, Morningstar DBRS uses the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings https://dbrs.morningstar.com/research/437781 in its consideration of ESG factors.

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

The sources of information used for these credit ratings include City of Madrid for financial position for the 2015-23 period (annual accounts for the 2015-23 period), monthly budgetary execution documents for 2024, economic structure for 2023, and debt structure documentation for the 2016-23 period, Bank of Spain for the debt stock during the period between 2015 and 2023 (Debt according to the excessive deficit procedure documents), Independent Authority for Fiscal Responsibility (AIREF) for its Report on Budgetary Execution, Public Debt and Expenditure Rule (July 2024), for its Complementary Individual Valuation of Local Entities 2025 (November 2025) and for its economic and financial information observatory of Autonomous Communities, Instituto Nacional de Estadística (INE), Ministry of Finance, 2024 Global Social Progress Index, Haver Analytics. Morningstar DBRS considers the information available to it for the purposes of providing these credit ratings to be of satisfactory quality.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS' outlooks and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://www.dbrsmorningstar.com/research/444602.

These credit ratings are endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Jorge Espinosa, Assistant Vice President, Global Sovereign Ratings
Rating Committee Chair: Thomas R. Torgerson, Managing Director, Global Sovereign Ratings
Initial Rating Date: 22 April 2022
Last Rating Date: 14 June 2024

DBRS Ratings GmbH, Sucursal en España
Paseo de la Castellana 81
Plantas 26 & 27 28046 Madrid, Spain
Tel. +34 (91) 903 6500

DBRS Ratings GmbH
Neue Mainzer Straße 75
60311 Frankfurt am Main Deutschland
Tel. +49 (69) 8088 3500
Geschäftsführer: Detlef Scholz
Amtsgericht Frankfurt am Main, HRB 110259

For more information on this credit or on this industry, visit dbrs.morningstar.com.

Ratings

Madrid, City of

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
13-Dec-24	Long-Term Issuer Rating	Trend Change	A	Stb	EU U
13-Dec-24	Long-Term Issuer Rating	Upgraded	A (high)	Stb	EU U
13-Dec-24	Short-Term Issuer Rating	Confirmed	R-1 (low)	Stb	EU U

Contacts

Jorge Espinosa
Assistant Vice President - Global Sovereign Ratings
+(34) 919 036 492
jorge.espinosa@morningstar.com

Thomas R. Torgerson
Managing Director - Global Sovereign Ratings
+(1) 212 806 3218
thomas.torgerson@morningstar.com